

**Minutes of Treasury Sub-Committee Meeting  
Of the Lower Severn (2005) Internal Drainage Board  
Held Wednesday 10<sup>th</sup> March 2021 at 10.30am  
Virtual Meetings**

**Present:** Ald C Williams Chairman  
Cllr K Burchell (Deputising for M Riddle)  
Mr J Nichols  
Mr M Barnes  
Cllr P Howells

Martin Dear Accounts Officer AO  
Louise Reading Minutes

<b>3182</b>	<p><b>Election of Chairman for 2021/22</b> The AO invited nominations for the post of Chairman. Ald Williams was proposed and seconded for the post. No other nominations were proposed.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>Ald Williams be elected Chairman for the ensuing year.</b></li> </ul> <p>Ald Williams thanked Members for their confidence in him to continue this role in the coming year.</p>	
<b>3183</b>	<p><b>Apologies/Welcome</b> Apologies were received from Cllr Riddle. Cllr Burchell was welcomed as Cllr Riddles deputy.</p>	
<b>3184</b>	<p><b>Chairman's Announcements.</b> There were no announcements.</p>	
<b>3185</b>	<p><b>Declaration of Members' Interests</b> No interests were declared.</p>	
<b>3186</b>	<p><b>Minutes of the Previous Meeting</b></p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The minutes of the meeting held on 26<sup>th</sup> August 2020 be approved.</b></li> </ul>	
<b>3187</b>	<p><b>Matters arising from the minutes</b> All actions were complete.</p>	
<b>3188</b>	<p><b>Reports from Smith and Williamson</b> <b>Schedule of Investments Since: a) 1 April 2017; b) 1 January 2020; c) 1 April 2020; d) 1 January 2021</b> <b>Schedule of Investments since the Date of Acquisition and for the previous 12 Months as at 31 January 2021</b></p> <p>The Chairman decided to take these 3 agenda items at the same time</p> <p>The AO directed Members to the summary from Smith &amp; Williamson which detailed the Drainage Boards investment performance, the market performance and future recommendations. He also presented the latest valuation schedules.</p>	

<p>Members discussed the historical reasoning for the schedule of investments prepared by the AO. Schedules of investments were prepared for the periods from: 1<sup>st</sup> April 2017: 1<sup>st</sup> January 2020; 1<sup>st</sup> April 2020; 1<sup>st</sup> January 2021.</p> <p>The Chairman recommended that it would be prudent to revert to reporting on two key concepts these being performance since acquisition and performance of the preceding 12 months. Members agreed</p> <p>The AO confirmed in response to a question from Mr Nichols that monthly valuations from Smith &amp; Williamson would still be provided.</p> <p>Mr Nichols commented that Baillie Gifford funds had performed well over the period.</p> <p>The Chairman advised that the investments had recovered well since the start of the pandemic a year ago. He also asked Members to exercise caution as to when comparing figures and urged Members to ensure they compared like for like.</p> <p>Smith and Williamson had provided two recommended, these being:</p> <ol style="list-style-type: none"> <li>1) Selling c.£40,000 of Pacific Horizon trust which has significant exposure within the technology sector and reinvest c.£35,000 into Asia Dragon Trust which provides broader exposure to Asian equities.</li> <li>2) Selling Standard Life Property and investing in c.£25,000 in TR Property Trust which has a strong long term performance record and offers exposure to areas such as residential and industrial property.</li> </ol> <p>The Chairman felt happy with the first recommendation however expressed reservations with the second recommendation. After some investigation he had found that TR Property invested heavily in Europe and had significant exposure in residential, offices and shopping centres.</p> <p>He advised Members that the European economy remained unstable, the pandemic provided more work at home opportunities and retail had been affected so heavily. He agreed that funds should be moved from Standard Life Property but with the recommendation that Smith and Williamson be invited to look at alternatives and where possible in a global setting, if not global, a UK fund which excludes retail and reduces office and residential exposure.</p> <p>Clr Howells asked if Smith and Williamson could also provide justification for the TR Property recommendation.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>For future meetings only 2 schedules of investment performance was required. This being a schedule since acquisition and a schedule showing the preceding 12-month period;</b></li> <li>• <b>Sell c.£40,000 of Pacific Horizon trust and reinvest c.£35,000 into Asia Dragon Trust;</b></li> <li>• <b>Request that Smith and Williamson provide alternative investment options for the reinvestment of the Standard Life Property funds. These funds to remain in Standard Life Property until a new fund is agreed;</b></li> <li>• <b>Request that Smith and Williamson provide a justification for the TR Property recommendation.</b></li> </ul>	<p><u>20210310TRE1</u> The AO to instruct S&amp;W accordingly</p>
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	<ul style="list-style-type: none"> <li>• <b>Once the additional information has been received from Smith &amp; Williamson for this to be distributed to members of the sub committee.</b></li> <li>• <b>The decision as to the future action regarding the holding of Standard Life Property and any subsequent investment into another holding be agreed via electronic communication.</b></li> </ul>	
<b>3189</b>	<p><b>Management Fees charged by Smith &amp; Williamson</b> Mr Nichols asked if the investment figures in the Smith and Williamson report were net of fees. The AO advised that they were not and that the fees came out of the Investment account. The valuations provided by the AO included cash held at Smith and Williamson the investment fund, fees and charges.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The report be noted.</b></li> </ul>	
<b>3190</b>	<p><b>Review of Treasury Management Policy</b> The AO explained that the Treasury Management Policy was reviewed by the Sub Committee in March 2020 and is subject to an annual review. No changes were proposed to the existing policy.</p> <p><b>It was recommended that:</b></p> <ul style="list-style-type: none"> <li>• <b>There are no changes to the current Treasury Management Policy and:</b></li> <li>• <b>the policy be submitted to the Full Board on 9<sup>th</sup> June 2021 for approval as per Appendix A.</b></li> </ul>	
<b>3191</b>	<p><b>Review of Capital Financing and Reserves Policy</b> The AO explained that the Capital Financing and Reserves Policy was subject to annual review. The AO had made some changes to the policy and presented the changes to Members.</p> <p>Under the Capital Expenditure paragraph wording had been change to say that Capital Expenditure would only cover the cost of pump replacements until 2028/29.</p> <p>The Chairman aired concern that this could distort the figures as he felt that plant replacement should be included in the Capital Expenditure and therefore the figures would change because of this.</p> <p>Members agreed that it would be prudent to keep this simple and thus retain the original wording.</p> <p>The AO had added to the second paragraph under Capital Expenditure specific detail in relation to the depreciation of the Boards assets.</p> <p>Members felt it provided clarity and included depreciation within a policy.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The amendment to Capital Expenditure paragraph 1 retains its original wording.</b></li> <li>• <b>The amendment to Capital Expenditure paragraph 2 be agreed.</b></li> <li>• <b>The policy be submitted to the Full Board on 9<sup>th</sup> June 2021 for approval as per Appendix B.</b></li> </ul>	
<b>3192</b>	<b>Balance Sheet &amp; Developers Funds as at 31<sup>st</sup> January 2021</b>	

	<p>The Chairman posed the question that with a balance of £76,000 in the developer's, fund should some be invested.</p> <p>The AO advised that these funds would reduce by £45,000 this year as this would be transferred into working capital.. Members agreed not to invest any of these funds.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Balance Sheet and Developers fund be noted.</b></li> </ul>	
<b>3193</b>	<p><b>Cash Flow Forecast – Capital Programme to 2029</b></p> <p>Members reviewed the historical data. The Chairman advised Members that the Capital expenditure was not definitive and was subject to many variables that were currently under review</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Cash Flow – Capital Programme to 2029 be noted</b></li> </ul>	
<b>3194</b>	<p><b>Cash Flow 2020/2021</b></p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Cash flow 2020/2021 be noted.</b></li> </ul>	
<b>3195</b>	<p><b>Cash Flow 2021/2022</b></p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Cash flow 2021/2022 be noted.</b></li> </ul>	
<b>3196</b>	<p><b>Cash Flow Forecast for 2021/2022 – 2025/2026</b></p> <p>The AO informed Members that if no further developers' fund were received by 2022 a negative cash figure would be presented in the accounts and whilst this was unlikely it was a possibility.</p> <p>Should this happen then funds would be transferred from investment dividends cash account held with Smith and Williamson.</p> <p>However, works at Avonmouth and Severnside had picked up, after a challenging year with the Covid pandemic and subject to the progression of these, funds would hopefully be received within the next couple of years.</p> <p>The AO felt it prudent to show the figures as presented, and Members, agreed this presentation of the figures accordingly.</p> <p><b>It was resolved that:</b></p> <ul style="list-style-type: none"> <li>• <b>The Cash Flow 2021/2022 – 2025/2026 be noted.</b></li> </ul>	
<b>3197</b>	<p><b>Date of next meeting</b></p> <p>The date of next meeting is 25<sup>th</sup> August 2021. This has changed from 1<sup>st</sup> September 2021 as previously agreed at the Board meeting on 4<sup>th</sup> November 2020.</p>	
	The Meeting closed at 11.35am	

# LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

## Treasury Management Policy

To be approved by the Board on 9<sup>th</sup> June 2021

### Introduction

The primary principle governing the Board's investment criteria is the security of the financial institution in which the Board places its funds. Yield/return and liquidity are also key considerations.

### 1. The Board's funds

#### Approved Financial Institutions

The Board's principal banker is NatWest.

Cash may be deposited with any of the four main clearing banks (NatWest, Lloyds, Barclays and HSBC).

### 2. Accountabilities

The Treasury Sub-Committee will determine the amount of cash that is available for deposit with the four main clearing banks.

In addition to the NatWest Direct Reserve account, there will be two or three other deposit accounts.

Cash may be deposited in instant access accounts, fixed term accounts or notice accounts

If deposited in a fixed term account then the maximum fixed term period is six months.

If deposited in a notice account then the maximum notice period is six months.

The Accounts Officer to have flexibility to allocate funds between accounts in order to attract the best return. In particular the Accounts Officer is authorised to move funds between the Bonus Saver and the two Notice Accounts to increase the return of interest received on cash balances having regards to the cash flow requirements of the Board.

### 3. Funds received from Developers

Under minute No. 2218 at 24 June 2015 Board Meeting, the Board approved the appointment of Smith & Williamson Investment Managers. They manage the fund on a non-discretionary basis.

The Board resolved to invest £500,000 of the funds into a balanced multi asset portfolio. The income from these investments are to be re-invested.

The Treasury Sub Committee has the authority to invest future sums received from Developers. Before investing any future sums received, the Treasury Sub-Committee must take into account the cash flow requirements of the Board.

The Treasury Sub-Committee has the authority to agree into which funds these should be invested following consultation with Smith & Williamson.

# LOWER SEVERN (2005) INTERNAL DRAINAGE BOARD

## Capital Financing and Reserves Policy

To be approved by the Board on 9<sup>th</sup> June 2021

### Introduction

Reserves are an essential part of good financial management. They help the Board cope with unpredictable financial pressures and plan for future spending commitments. The purpose of this Reserves policy is to maintain an adequate level of funds to support the ongoing operations of the Board and to provide a source of internal funds for operational priorities such as rhine and ditch maintenance, pumping station running costs and repair, capital replacement and improvement programmes.

The Reserves policy will complement other governance and financial policies and will support the goals and strategies contained in strategic and operational plans.

### Background

The Board is required to set a balanced budget annually, which broadly means that cash raised within the year correlates to the cash expended in that year. However variances to the budget will occur. This may result in surplus funds through unbudgeted income such as Developer Contributions, better values achieved on the sale of assets or additional income from grants, contributions and recharges. Expenditure might be greater than budgeted for example such as lower values achieved on sales of assets, greater maintenance costs than predicted or an increase in pump electricity usage.

There will also be the funding of major (capital) spend. Most purchases, mainly vehicles and plant, are resourced through internal funds which are then replenished through appropriate depreciation charges based upon the life of the assets.

However, there may be instances where monies need to be identified to fund larger capital spend items such as the replacement of pumps or significant flood alleviation and land drainage management schemes. When this occurs forward planning will need to take place in order to ensure that sufficient funds are available at the appropriate times.

Importantly, there is a requirement to manage cash flows to ensure that cash is available when needed.

### Types of Reserve

There are two types of Reserves:

- Earmarked Reserves – funds that are set aside to meet known or future predicted future spending.

- Unallocated Reserves – funds that are working balances to manage cash flow and protect annual budgets against unplanned expenditure.

## Reserves Held

### Earmarked

- **Capital Account**  
This reserve consists of the total net value/worth, (assets less liabilities) of the Individual Drainage Boards when they amalgamated in 2005 to become one entity, the Lower Severn (2005) Internal Drainage Board.

- **Developers Funds**  
This reserve consists of sums received from Developers. A Developer will pay the Board an agreed sum, up front, for the Board to maintain agreed rhines, ditches and ponds over the lifespan of the Developers project within the Developers specified areas of responsibility.

Annually, an amount will be transferred from this Reserve to the Income and Expenditure Account, to cover the applicable income and maintenance costs in that year. Within the Income and Expenditure Account there will be an income entry showing the transfer of funds. The corresponding expenditure will be shown within the relevant expenditure headings.

- **Capital Expenditure**  
This reserve is needed to regularly appropriate from the expected excess income arising annually from the Income and Expenditure Account a sum of such magnitude as to be sufficient to cover the expected cost of the Board's approved capital expenditure which is incorporated into its medium term financial plan. The major element of this reserve will be to cover the expected cost of replacing pumps at pumping stations to meet the 2009 Eel Regulations.

Subsequent to the purchase of an asset, annual depreciation will be applied at its appropriate rate and charged to the Income and Expenditure Account. The annual depreciation charged will be as follows:

Plant and Machinery; Motor Vehicles; Office Equipment;  
Furniture and Fittings; Intangible Assets – Depreciation  
25% on the reducing balance  
Land - Depreciation not taken  
Buildings – Depreciation over 20 years straight line, over  
40 years straight line from 1 April 2021  
Pumps - Depreciation over 15 years straight line

- **Pension**  
This reserve is the liability, of the Board, related to the defined benefit pension scheme. Note it is a negative reserve.
- **Revaluation**  
This reserve is the increase in value of land and buildings, from cost, as at 15 January 2015.

#### **Unallocated**

- **Accumulated Fund**  
This reserve provides protection against unplanned expenditure. Any under spend, at the year end, is transferred to this reserve. Any over spend, at the year end, is met from this reserve.

### **Review of Reserves**

Each reserve will be reviewed, on an annual basis by the Treasury Sub-Committee prior to review by the Board. The Board's review will form part of the annual budget setting process. Part of this review will include considering guidance published by the Association of Drainage Authorities.

### **Creation / Cessation of a Reserve**

An earmarked reserve may be created for a specific purpose if it is agreed by the Board. Likewise the Board may close an earmarked reserve if it is no longer required. Any remaining funds in a Reserve to be closed will be transferred to another reserve.

### **Level of Reserves Held**

The Board has no legal powers to hold reserves other than those for reasonable working capital needs, or for specifically earmarked purposes.

Earmarked Reserves will only be held for genuine and intended purposes and their levels regularly reviewed. Each Earmarked Reserve will be separately identified and enumerated.

If, at the year end, the Accumulated Fund is significantly higher than the annual Special Levies and Agricultural Rates income then an explanation will be provided by the Board. The Board's Financial Regulations state that the general provision, including a contingency, should be maintained which is equivalent to approximately 30% of the Board's annual expenditure.

### **Liquidity of Reserves**

Reserves will be held jointly in general cash and investment accounts of the Board.